Welcome
(Speaker: Brendan Mooney, CEO)
Good morning, everyone, and welcome to the presentation of the results for the six months ended the 30th September 2022.

Housekeeping
So before Richard and I start the presentation, just a couple of very quick housekeeping points. So our presentation, it will take about 35 minutes. You know during that time your connection will be muted. So please feel free to ask questions using the Q&A or chat functionality that’s there in Teams. And so we are recording this broadcast. We’ll be using Teams to generate a transcript of the call, and after we do a quick edit for clarity, we’ll post that onto our website this evening.

Introduction
So let’s kick off in terms of the presentation.

So we’ve taken the opportunity to refresh our slide deck this time around and that’s to add more detail around our Workday Products, but also to retire some of the information that’s less relevant or less useful today. So in addition to updating the slide deck, I took the opportunity over the course of the past week to reread Julian Yates’ IPO documentation from back in June of 2015. Anyway, Julian’s on the call. So Julian, you can relax, it still reads very well.

But I thought that, you know, with a little bit of indulgence from yourselves that it might be useful to look at some of the information we shared back in 2015 and now reflect back on what we see today.

Business Overview
Whenever we use this slide, I guess the first thing that always strikes me about the slide is that we’ve got three divisions that are performing really well: strong growth, strong margins, and kind of widening opportunities for the business. And just to focus on that point about widening opportunities. So again, across our entire business, we operate in incredibly durable, kind of resilient and kind of high growth markets.

So jumping back to 2015, we defined the digital transformation market in the UK as being £128 million per year. Today that figure has grown to £2.4 billion. For Workday Services, we described the market opportunity back in 2015 as £30 million per year. Now, it’s a £1 billion+ per year opportunity for us. And our Workday Products was so early in its own evolution that we couldn’t put an estimate on it. And today we size that opportunity for us at just over £400 million.
So as we enter what is now technically the second decade of digital transformation, we believe that the markets for Digital Services, for our Workday Services and for our Products business really are significant. We're going to continue to show high growth and our forecast is that the market opportunity will double in size over the next five years.

**Expertise at a global scale**

In terms of our customers, we are just so proud of the work that we do with the customers, and very proud of the customers that we work with as well. Our customer cohort today is almost 800 different ambitious organisations. That includes some really well-known brands and I've featured 30 of them here on this slide. I'm sorry we were only able to cram 30 in as well, but an absolutely fabulous, kind of increasingly global customer cohort.

**Highlights**

So really to turn to our performance in the last six months. So it’s been, from an internal perspective, a really pleasing period of time. We have once again delivered very strong growth. That’s both at a group level, but also at an individual divisional level as well. And hopefully we’ve captured that accurately for you in the graphic on the left-hand side of the screen.

So I've mentioned already on the call, you know, that kind of long-term demand being very strong. But we're also seeing that same strength in the near term as well, you know. And to try and give a sense of what that statement means; if I think about the last six months, we have declined/withdrawn from or no-bid on over 20 Workday opportunities in North America, Workday Services opportunities in North America. We have declined 10 Workday Services opportunities in Europe as well and we're seeing that same kind of pattern repeat across our Digital Services business. So to me, just to repeat that point, we see a very strong demand environment in the near term.

I have to say, you know, we're just delighted to have achieved Workday Phase One partner status in the US. It's been an ambition for us as an organisation for, I guess, almost five years. So I have to say well done to the team on achieving this particular milestone. I believe I'm right in saying that we are the only US Phase One partner that's not headquartered in the US. In terms of that Phase One partner status, we are [clarification edit: not] really seeing that impact in this set of results. Our North American revenue is up 100% compared to this time last year.

And as we previewed back in May, we are investing heavily in our Workday Products as we make that progress towards our stated £100 million ARR target by 2026. So our ARR at the end of September is already £44 million and we should exit this year over halfway towards that target.
And you know, to take a moment really to talk about the international opportunity again. So today in these results over one third of our revenues are generated by international markets. So in contrast, back at IPO in 2015, it was 6% of our revenues were international. To express that in monetary terms, at IPO we were generating £3 million of international business; in the current year, we will exceed £130 million of revenue internationally. That’s just brilliant progress by the team.

So one aspect of this increased international activity is increased exposure to foreign exchange fluctuations. So this is most evident in our adjusted profit performance where our profits would have been £5.8 million lower if reported in constant currency. So that £5.8 million figure balances rather neatly with the £1.5 million impact of lost revenue from the two additional UK bank holidays we had this reporting period, and the additional £4.2 million of investment that we’re making into our Workday Products. So we’ve detailed the foreign exchange impacts fully in the interim statement and they’re included at the bottom of each of the relevant slides in this particular presentation.

Looking across our other KPIs, we’ve strong bookings, excellent backlog, the cash balance nearing £100 million and we’re looking forward to getting interest on our deposits for the first time since we became a public company. And finally, the powerhouse in our business is our people. We continue to retain and attract talented colleagues as we near almost 3000 employees.

Our People
So really, continuing on that theme of our people and how their energy and expertise and experience drive our business. Again, to be clear, you know our established delivery model is hybrid. So we have colleagues working from home and from our offices, occasionally from client office as well. We’re taking the view that office attendance is optional. And in terms of the levels of attendance it does vary from office to office, and the day of the week. So it’s typically about 20% with the Tuesday through Thursday period busier than Monday and Friday.

So rather than the mandating office attendance, we’re looking at ways to create opportunities for our colleagues to attend our offices, so typically around celebration type events. But we’re also very focused on meeting the needs of certain groups. So those colleagues who are starting out in their career and who will benefit most from being in the same physical location as others are obviously getting a lot of our attention.

Our staff numbers are up 20%. So we’re now just short of 3,000 people in Kainos who have grown across all the regions, but most significantly, as you can see there, in the American region.
And the flip side of high demand for digital transformation that we provide to our customers is that there’s also increased demand for digital skills. So our observation from all of our recruitment activity is that the skills market is catching up with demand, but there’s still a skills gap there.

So against that backdrop, our staff retention has decreased to 86%, so from 89% this time last year. But we also reported 86% retention back in May as well. So for us, it continues to be a focus area for us to make sure that we’re creating the environment for our colleagues to choose to stay at Kainos and to develop their careers.

And in terms of recruitment, you know the market does remain competitive, but there are still plenty of candidates out there looking to change jobs. In the past six months, we’ve received over 16,000 applications for jobs, and offered over 450 roles. So those levels very much consistent with previous years as well.

**Our Customers**

So we have a fabulous set of customers, I’ve mentioned that already on the call, and we work with them over a long period of time. In fact, our longest standing customer did their first project with us back in 1988. So each of these charts, I think tells the important story about our business.

Although I have borrowed the term net revenue retention from the world of SAAS and applied it to our mainly project-based revenues. So our net review attention for the period is 125%, you know and this high level of revenue retention like, to me, is a great way to describe the value we deliver to our customers and also the excellent customer satisfaction figures we have as well. To put it in context, we have had a net revenue retention of greater than 100% for the past 12 years. So it means that we get to forecast our business very accurately. We can predict what our customers are planning to do with a great degree of detail.

Moving to the chart in the middle, about the type of coverage that we have. So almost 50% of our revenues are now generated from Commercial Sector clients. So harking back to Julian’s note again in 2015 at IPO, Commercial clients represented 25% of our revenues. And again, to convert that to monetary terms, back in 2015, it was £15 million worth of business from commercial clients. That’s a forecast £175 million for the current year. So just again, another great achievement by the team.

And the final chart, I’ve mentioned this already about our increase in our international revenue, but I think it does bear repeating. We have a third of our revenues now generated internationally, compared to 6% or £3 million back in IPO. Again this year, we’re forecast to exceed £130 million in international revenue.
Our responsibilities
So we’ve aligned our activities, our responsibilities around the United Nations Sustainable Development Goals. So in terms of climate action, we continue to be carbon neutral and we remain on track to be carbon net zero by 2025. So we also recognise that we’re a carbon light business. So, part of our activity is about helping our colleagues, our customers and our suppliers embrace their own carbon light future. So for instance, our UK salary sacrifice electric vehicle scheme has proven very popular with our colleagues with over sorry, with almost 100 people transferring to electric vehicles. And the launch of our carbon calculator helps customers understand how they can reduce their environmental impact as well as reduce their cost by moving the infrastructure from on-premises into the cloud.

We know that the technology sector in the UK has a significant gender imbalance issue, so our plan focuses on three elements: First, to retain and develop the talents of women already working in Kainos; second is to become the destination employer for talented women in the sector, and third to inspire more young women into the sector. So we’re pleased with our progress over the past year, but there’s clearly much more to do.

Our Earn As You Learn programme is entering its 10th year. So this program, for those not familiar with it, is aimed at young people for whom a move to full time university education is not the right next step for them. So perhaps that’s to do with their learning style, or the expense of university, or just a personal choice that they’re making. So under our scheme, the young person joins us as a full time employee, and then works four days a week in Kainos, and attends university that final day to study computer science. So that creates, I think for them, a great blend of working with world class practitioners alongside the rigor of academic learning. So this is an incredibly popular program. And as you can see from the results of the 2022 cohort, incredibly successful. It’s a testament to the structure of the program, but especially to the young people on it, that over 80% of the participants that graduated this year are doing so with their first class honours in computer science.

Divisional Performance: Digital Services
So in Digital Services, we’ve had a really strong performance. We’ve a 17% increase in revenue, the lower bookings figure and hence the lower backlog figure really a timing consideration. in H1 of last year we signed £54 million worth of contracts that are only due for renewal in H2 of this year. So our expectation is we’ll see another strong performance from Digital Services [clarification edit: this year].
In the Public Sector, we remain the number one supplier to government around digital transformation services. So alongside supporting our existing customers, we’ve also prioritised activities of widened our presence inside the sector. So principally focusing on both defence and policing. So we are now delivering projects in both those areas. We are the artificial intelligence partner for the MOD’s Defence, Science and Technology Laboratory and we’re the cloud migration partner for the Secure Policing HQ.

So back in June, back at the start of the summer, the government published their latest road map for digital and data transformation. To put it in their own words, it outlined their ambition to move beyond ‘the pockets of brilliance’ to ‘a seamless and easy experience’ when dealing with government. So importantly as part of that document, they identified the next 75 services they wish to digitize by 2025. So if they’re even just to do half of that work, there is a significant amount of work required to achieve those targets.

Skipping to Healthcare. Back in May we flagged the merger of NHSx and NHS Digital and that we thought it would cause some delays in the award of new contracts, which is definitely been the case and that’s reflected in the slight decrease in revenues from the sector over the past six months. In terms of our expectation, we expect the merger to continue to delay decisions for at least the rest of this financial year, perhaps a little bit longer.

And to finish off on the Commercial Sector, it continues to be our fastest growing sector, growing by 51%. So in addition to supporting our existing clients, we’ve also continued to have success in the insurance and payments sectors as well.

**Case study: UN International Organization for Migration**

So I think that that all the work we do for customers is important, but there are some times that the impact of certain projects does stand out. That’s definitely the case for the International Organization for Migration, an Agency of the United Nations. So the IOM are responsible for supporting over 30 million people every year, often people that are displaced by global conflict. So we were appointed to migrate over 700 virtual machines to Microsoft Azure, and allow the IOM to decommission three data centres located around the world. It also allowed them to remove countless physical servers based in their 450 local missions that the IOM operates in over 150 countries.

When the Taliban were advancing in Afghanistan we had to accelerate the transfer of the data held physically on the servers in the Kabul mission. It was critical that we migrated the vital refugee data from the local servers so the machines could be wiped to ensure the data could not be accessed by the Taliban. And we had to
support the mission in Kiev in the same fashion in February as Russian forces advanced on the Ukraine capital.

In addition to the benefits of improved security, resilience and the reduced cost through the moves to Azure, it also reduced significantly the carbon emissions for the IOM as well.

And to finish off, you know, what a great quote provided for us by the customer calling us trailblazers in this particular space, around cloud migration.

**Workday Services**

So in my opinion, this presentation is full of great progress, but the Workday Services performance is certainly to me the standout. Revenues are up 44% or 36% in current currency. Bookings are up 125% or 114% in current currency, which is another fantastic performance by the team.

Embedded in these results are our two biggest ever Workday deals, one in the US and one in Europe. So this reflects obviously the great work of the team, but also our ever increasing stature in the Workday ecosystem. We remain the largest partner in Europe, and globally we are ranked number 7 in terms of the number of consultants we have in Kainos.

So we’ve had fantastic growth in North America. So we’ve been investing, as you know, steadily in the region over the past five years, so you can understand how delighted we are about achieving US Phase One partner status. And to kind of, in anticipation of that and part of our investment, we now have 350 colleagues based in the region.

In Europe we continue to have and maintain our leading position in the market. It’s important to note that the European market is a key one for Workday Inc. They continue to call out international growth as one of their five key growth priorities in the years ahead.

Consulting numbers, as you can see, up strongly now at over 700 accredited consultants in the business. And featured on this slide, as part of this update, we’ve also revised the addressable market calculation. So we’ve added over £200 million to the figure, which is the additional opportunity that the US Phase One market represents for us.

**Case Study: KION Group**

So KION Group are a $10 billion revenue business. They’re headquartered in Germany and they provide industrial trucks and supply chain solutions around the world. They are a world leader in the supply of industrial trucks, that’s forklifts and
warehouse trucks to you and me, and they have 1.8 million vehicles in operation around the world.

So we were selected by KION Group to deploy Workday Core HCM across the organisation, and the customer quote contains the regular feedback that we get from many customers: that we have a deep understanding of Workday, our consultative approach in terms of understanding the customers objectives; and then the capability to deliver the project.

And in the case of the KION group, that project was to support 36,000 employees in 100 countries utilizing 8 different languages.

**Workday Products**

So Workday is clearly a very comprehensive SaaS platform, but we continue to believe there are opportunities for us to develop our own software products that are complementary to the platform and will enable Workday’s customers to further increase the benefit they get from Workday platform itself.

So we have now, I’m delighted to say, have a suite of products: Smart Test we launched back in 2013; Smart Audit launched the summer of 2021 and then Smart Shield which launched summer of 2022. And that increased portfolio has contributed to the strong growth in revenue, ARR and backlog. So our Workday Products business is largely an international business. So looking at those figures and reporting them in current constant currency revenue growth of 30%, and ARR growth of 33%.

So in addition to a very strong financial performance, we’ve also been building the significant parts of the foundation to allow us to achieve our £100 million target by 2026. From a sales and marketing perspective, we’ve separated our Workday Services and our Workday Products sales teams, and we’ve expanded the Workday Products sales team from 6 people to 18 people with a strong presence in the US market, including the recruitment of a US based experienced Chief Revenue Officer who joined us in July of this year.

I have to say it’s fair to say that the recruitment and reorganisation has not been without its impact. So our H1 sales performance is down slightly versus the same period last year, but we would see this very much as just as a timing issue and we remain on track for a strong year of growth.

This year saw the return in person of the Workday Rising user conference for the first time since 2019, and we had such a great US Workday Rising. Our meeting and prospect levels this year were twice that from 2019, when we were last in person together. And Workday Rising for Europe kicks off on Wednesday of this week, so we’re expecting to see another great turn out there as well.
Overall, we talked about this increase in investment, in sales and marketing and R&D. It’s up 91% or a £4.2 million investment compared to the same period last year. So we think we’re now at the kind of the right levels of investment to allow us to achieve that £100 million target. In terms of, kind of setting expectations around future investments, there will be some incremental investments because some of our costs came on later in H1, rather than start of H1, but not that we’re going to see the same ‘step change’ that we had over the last 12 months.

Case Study: Capital One

So whenever we think about, you know, the case studies and our products around Smart Test, Smart Audit and Smart Shield, it’s sometimes hard to convey the value that they bring to our customers, but I think this case study here from Capital One does bring this to life.

So for us, Smart Test is about that comprehensive test activity, 40,000 tests every weekend. It’s about reducing that weekly testing effort by 80%, reducing the testing duration by 75%. But ultimately, it’s about ensuring that the payroll calculations are correct for Capital One’s 51,000 employees.

Financial Performance

So I’m now going to hand over to Richard. Richard, if you want to let me know when you would like to see the slides change and I will talk to you all of you after Richard has finished. Thank you.

Group Income Statement

(Speaker: Richard McCann, CFO)

Thanks, Brendan. Those of you who’ve been on Kainos results calls previously know that I like to use pop music analogies. So I’ll start with George Michael. I know what you’re all thinking, with that beard, Richard is a dead ringer for the late George Michael. I guess one or two of you possibly think that in a good light, Brendan has a passing resemblance to Andrew Ridgeley. But that’s not really what I was thinking about. I was thinking more about along the lines of how Kainos has developed as a business. The UK Public Sector is bit like Wham! in the early 80s. Lots of great hits, but of a very specific genre. And it does produce great royalties year after year. And I suppose Defra and DVSA are the “Careless Whisper” and “Last Christmas” of Kainos.

But as Brendan mentioned earlier, we’ve grown in different markets overseas, particularly in the United States, and private sector focused business, which is a bit like “Faith”, or “Listen without prejudice”. It’s very different music, but it’s based on the same song writing skills, but to very different audiences. But look I’ll stop there before I beat this analogy to death. The serious point is that our business is significantly different, and one of the things within that is that increasingly our
revenue is denominated in other currencies other than sterling, particularly in U.S. dollars. And we continually locate our costs where it makes most sense. So, development, support of product in high skilled, but also lower cost countries.

So this reporting period contained big currency swings and they happen to be in our favour. Hopefully future periods will have smaller swings, but they may not be in our favour. We don’t think that currency hedging makes much sense for us and we’re going to take a long-term view of how we manage the business in terms of currency.

So in terms of the group financial statements starting with Digital Services. Worth pointing out that from a revenue perspective, very little currency impact here. Public Sector still the largest part of our business, and a 21% revenue growth is excellent given the size of this business to start with. Some volume growth within that and some day rate growth as well.

Brendan mentioned Commercial, or Private Sector business. Again, a 51% growth is excellent, but if you put that on top of last year’s 60% growth in FY22, it’s even more impressive and we continue to see opportunities for growth in the future. Healthcare had a slight decline of about 2%. Following on the couple of years of spectacular growth, plateauing was probably a reasonable expectation for that business. Gross margins were about 38% in this part of the business, slightly down on last year. We still saw some fairly significant salary pressure, which we believe is beginning to moderate slightly. Direct expenses grew by 17%, in line with revenues.

I’ll probably just pick up on salary inflation here because obviously been on topic of discussion. Six months ago, my terrible pop music analogy was that it was like Abba’s outfits: loud, garish, and uncomfortable. And I see Matt McManus is on the call and he’s going to Workday Rising, and will be presenting with Bjorn on Wednesday, so he can probably ask him there about the lack of comfort of those things. More seriously we said we’d take a long-term view on salaries. We wouldn’t chase the market and we would continue to pay staff fairly. We continue to do that, and it feels as if the outfits are becoming slightly less uncomfortable, slightly less garish.

Workday Services, as we flagged six months ago, we’d separated out from Workday Products, partly on the basis of materiality, partly because of the different characteristics within the business to try to give you more useful information. As Brendan mentioned, revenue grew 44%, that was 36% in constant currency. Prime Status in the United States had no real impact on this due to the timing of the announcement. Worth noting that the business in the Americas region is now more than half of the Workday Services revenue. Gross margin is down by 4% on H1 last year, albeit up slightly on H2 on a sequential basis. Salary inflation and staff attrition, which are clearly related major factors in that reduction in gross margin. And direct expenses grew 56%; partly currency driven, partly salary inflation driven as well.
Workday Product is the part of our business that is going to be most influenced by currency fluctuations. Revenue grew 45%, but that was 30% in constant currency. Gross margin up 1%, slightly flattered by currency movements as well. And as Brendan mentioned, direct expenses was the bigger issue in this part of the business. We flagged our investment six months ago. Product development continues to be fully expensed, but increased about £1.3 million, and sales and marketing increased about £2.9 million based partially on the new or the increased numbers of the US sales force but also the return to in-person marketing events like Workday Rising.

Central overheads technically fell 4%, but we booked a £3.5 million currency gain here. So the actual increase was closer to 30%. And the tax rate increased slightly to 21%. And obviously we await the budget with interest.

**Balance Sheet and Cashflow**
Moving on to the balance sheet and cash flow slide. In terms of the balance sheet, fixed assets, there’s no major change here other than currency impacts. We moved part of the value of the Belfast Office site into investment property prior to the anticipated sale to Queens. Working capital, debtors and WIP combined reduced to about 69 days from 73 days last year. And as Brendan mentioned, cash ended the period at 97 million.

In terms of cash flow, cash conversion was 70%, which is clearly much better than the same period last year of 38%. But I think it’s fair to say it’s flattered by a truly awful comparison last year. 70% is where we think we ought to be in terms of expectations given that we pay virtually all our bonuses in H1.

Going forward, we expect the building planning process to take about 18 months. That would mean most of the cash expenditure for the new office would be in FY25 and FY26. And in terms of dividends proposed, the figure is 7.8 pence, that is up from 7.1 pence last year and equates to 1.4 times cover. Brendan.

**Looking Ahead**
*(Speaker: Brendan Mooney, CEO)*
Richard, thank you very much.

**Outlook**
Just to finish off the presentation, you know when I started, about half an hour ago, I was looking back to 2015, so thank you for that indulgence. But perhaps you might allow me to go back a little further in time, back to 2011. That’s the year we undertook our first small projects in the UK Government, very much at the forefront of Public Sector transformation in the UK. It’s also the year that we became a Workday partner. As Workday landed in the UK as part of their own international expansion.
So over those intervening 11 years, we’ve certainly made good progress and we’re pleased with that progress. But I think we’re really much more excited about the opportunities that lie ahead. So we’re heading into, again, to reuse the phrase, the second decade of digital transformation, and we’ve got lots of reasons, I think, to be excited.

In the UK, we remain the leader in digital transformation for the UK Public Sector. We’ve added to that leadership position in the Public Sector with a solid position in Healthcare, and we’ve started our growth journey in financial services as well.

So as we look forward to this year and subsequent years, we really want to keep that progress going in the UK, but we also want to add an international dimension to it as well. So we have a growing presence in both North America and in Germany, and so we want to see that continue to grow and become significant revenue opportunities in their own right.

And underpinning, I guess, our aspirations in this space really just looking at the demand in the UK public sector, which we see replicated across all of our markets, in the UK Public Sector, the five year growth in spending has been an amazing 22%. Over that same period of time, Digital Services achieved a 28% compound growth and we think that we can continue to outpace that underlying market.

I think that we also could, you know, outpace the market in Workday Services as well. So this is a market, if we need reminded, that is due to double in the next 4 years as Workday Inc head towards their $10 billion revenue target from just under $6 billion today.

So for us, our immediate focus is on building in those established markets across Europe and into North America. And I guess a growing emphasis on that opportunity in North America as we look to maximize the benefit of our US Phase One partner status.

So the team behind our Workday Products division have built a great business already. You know, already at £44 million of ARR, but we genuinely believe that they’re just getting started. And over the next the next four years that £100 million target is ambitious but certainly achievable for us.

So we think that the reasons for that strong belief, we can get a much higher adoption of Smart Test and Smart Audit and Smart Shield across the Workday customer base, well beyond the 350 customers that we have today. This is a marketplace of 4000 Workday customers that's growing quickly in its own right.

Allow me to finish off and to hand over to the Q&A session.
Just to really repeat, hopefully something we’ve covered several times during the presentation, we’re very pleased with the results we’ve published today, but we’re just really excited by the opportunities that lie ahead.

So I’ll now stop sharing my screen and hand across to FTI to moderate the Q&A session.